

Message Text

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PAGE 01 MANILA 09748 01 OF 02 170608Z

11

ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 IO-10 NEA-10 /104 W

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P 160858Z JUL 75 ZDK

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 5510

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 9748

USADB

E.O. 11652: ADS, DECLAS 10/16/75

TAGS: EAID, EFIN

SUBJECT: ADB PROPOSED PARTICIPATON IN FINANCING OF INTERNATIONAL
SCHOOL DEVELOPMENT PROGRAM

FOR NAC AGENCIES

SUMMARY: ADB PROPOSES PURCHASE OF US\$555,882 EQUIVALENT
IN CAPITAL NOTES ISSUED BY MANILA'S INTERNATIONAL SCHOOL
(IS) TO HELP FINANCE IS \$5 MILLION EQUIVALENT CAPITAL
DEVELOPMENT PROGRAM, THEREBY ASSURING ACCESS TO ENROLLMENT
IN IS FOR ADB STAFF DEPENDENT CHILDREN FOR NEXT 12 YEARS.
SCHEME IS ONE OF 3 OPTIONS OFFERED TO SPONSORS OF STUDENTS
BY IS BOARD OF TRUSTEES. USADB RECOMMENDS FAVORABLE
NAC ACTION.END SUMMARY.

1. 1. ADB MANAGEMENT PROPOSES BANK PURCHASE 300 CAPITAL
NOTES AT P12,600 PURCHASE PRICE WITH MATURITY
VALUE OF P24,000 AT END OF 12 YEARS (TOTAL COST
P3,780,000 EQUIVALENT TO US\$555,882) BEING ISSUED BY
INTERNATIONAL SCHOOL AS ONE MEANS OF FINANCING SCHOOL
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PAGE 02 MANILA 09748 01 OF 02 170608Z

DEVELOPMENT PROGRAM. ADB TO UTILIZE 230 OF SUCH

NOTES IMMEDIATELY TO COVER DEPENDENT CHILDREN CURRENTLY ENROLLED. BANK TO RATAIN BALANCE OF 70 NOTES TO MEET ANTICIPATED INCREASE IN ENROLLMENT UP TO 1977.

2. ADB DOC.R63-75 DESCRIBING PROPOSAL POUCHED JULY 8. BOARD CONSIDERATION SCHEDULED JULY 22 (NOT JULY 29 AS SHOWN ON DOC).

3. CAPITAL NOTE PURCHASE ONE OF THRAE OPTIONS WHICH MUST BE EXERCISED UNDER IS FINANCE DEVELOPMENT PROGRAM. ISSUE COST OF NOTES P12,600. NOTES MATURE IN 12 YEARS WITH MATURITY VALUE OF P24,000. NOTES CARRY 12 COUPONS, EACH REPRESENTING ONE INSTALLMENT OF CAPITAL AND INTEREST REQUIRED TO BE PRESENTED EACH YEAR FOR EACH STUDENT. IN ADDITION TO SURRENDERING COUPONS ON ANNUAL BASIS, INDIVIDUALS WHO EXERCISE CAPITAL NOTE OPTION AND ENROLL CHILDREN MUST PAY A FURTHER ANNUAL DEVELOPMENT FEE OF P2,000. FYI: IF NOTE HOLDER DOES NOT USE COUPON FOR ENROLLMENT PURPOSE, COUPONS MAY BE REDEEMED IN CASH FROM SCHOOL ON ANNUAL BASIS AT PRO-RATED MATURITY VALUE, I.E. P2,000 PER YEAR. END FYI.

4. FOR INDIVIDUAL EXERCISING CAPITAL NOTE OPTION, ANNUAL COST OF THIS OPTION P2,000 (DEVELOPMENT FEE) PLUS ISSUE COST OF NOTE ON ANNUAL BASIS, P1,050, RESULTING IN TOTAL ANNUAL OUTLAY P3,050. NET TOTAL OUTLAY PER CHILD OVER 12 YEARS P12,600 I.E., P12,600 FOR NOTE PURCHASE PLUS P2,000 DEVELOPMENT FEE PER YEAR FOR 12 YEARS MINUS P24,000 MATURITY VALUE AT END OF 12 YEAR PERIOD. ANNUAL COST P1,050 PER CHILD. ADMISSION TO IS ASSURED FOR 12 YEAR PERIOD PROVIDED STUDENT MEETS OTHER ENROLLMENT REQUIRAMENTS.

5. BANK DOC. NOTES THAT INCOME FROM CAPITAL NOTES WOULD LIKELY BE TAXABLE BY PHILIPPINE GOVERNMENT (GOP) IF NOTES PURCHASED BY INDIVIDUAL PARENTS. WITH BANK BUYING NOTES INCOME EXEMPT UNDER ADB HEAD-QUARTERS AGREEMENT WITH GOP. NOTE PURCHASE ASSURES ADMISSION TO DEPENDENTS OF HOLDERS PROVIDING STUDENT MEETS OTHER ENROLLMENT QUALIFICATIONS. LIMITED OFFICIAL USE

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PAGE 03 MANILA 09748 01 OF 02 170608Z

6. SECOND OPTION IS PREPAYMENT CERTIFICATE WITH PREPAYMENT TERM RUNNING FROM 4 TO 12 YEARS. AVERAGE ANNUAL COST PER YEAR RANGES FROM HIGH OF P1,958.25 FOR 4 YEAR PREPAYMENT ERM TO LOW OF P1,050 FOR 12 YEAR PREPAYMENT TERM. CERTIFICATES CARRY COUPONS FOR EACH YEAR PREPAID IN WHICH ONE COUPON SURRENDERED PER YEAR AS DEVELOPMENT FEE.

SUCH COPUPONS TRANSFERRABLE BUT NOT REDEEMABLE IN CASH.
TOTAL COST AS WELL AS ANNUAL COST TO PREPAYMENT
CERTIFICATE PURCHASERS WHO PREPAY ENTIRE 12 YEAR
PERIOD IS P12,600 AND P1,050 RESPECTIVELY -- SAME IN
BOTH INSTANCES FOR HOLDERS OF CAPITAL NOTES. ADMISSION
TO IS ASSURED FOR NUMBER OF YEARS PREPAID PROVIDED
STUDENT MEETS OTHER ENROLLMENT QUALIFICATIONS.

7. THIRD OPTION IS PAY-AS-YOU-GO I.E., DEVELOPMENT
FEE PAID ON ANNUAL BASIS. ANNUAL FEE THIS OPTION
P2,625 FOR SCHOOL YEAR 1975-76. NO ASSURANCE AMOUNT
WILL NOT BE INCREASED IN LATER YEARS. FURTHER
FUTURA ENROLLMENT NOT ASSURED UNDER THIS OPTION. FYI:
U.S. EBASSY ADOPTING THIRD OPTION DUE LACK OF AUTHORITY
EITHER PREPAY OR PURCHASE CAPITAL NOTES. END FYI. TOTAL
COST OF OPTION OVER 12 YEAR PERIOD P31,500 OR P18,900
MORE THAN FIRST TWO OPTIONS ON CUMULATIVE BASIS AND
P1,575 PER YEAR AVERAGE MORE THAN OTHER TWO OPTIONS.

8. DOC. NOTES THAT UNDER ADB ADMIN ORDER NO. 3.02
3,585)3\$ 3\$7:-589, &4-,5 , STAFF COULD ELECT TO PAY
INDIVIDUALLY KOR ANY OF THREE OPTIONS, APPLY TO BANK
FOR REIMBURSEMENT OF 75 PERCENT OF AMOUNT. 5#8 ,
HOWEVER, WOULD ENTAIL HEAVY INDIVIDUAL FINANCIAL
BURDEN, ESPECIALLY FOR STAFF WITH MORE THAN ONE
CHILD. FURTHER IF PROFESSIONAL STAFF OPTED FOR
PAY-AS-YOU-GO SCHEME, POSSIBILITY (WHICH SCHOOL STATES ENTIRELY
THEORETICAL) EXISTS STUDENTS COULD BE DENIED ENROLLMENT.

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PAGE 01 MANILA 09748 02 OF 02 170610Z

16

ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 9748

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9. BANK PROPOSES TO EXERCISE CAPITAL NOTE OPTION AND PURCHASE 300 CAPITAL NOTES. 230 NOTES TO BE USED FOR ADB DEPENDENTS CURRENTLY ENROLLED IN IS. BANK WILL RETAIN REMAINING 70 CAPITAL NOTES IN ANTICIPATION OF INCREASED NUMBER ADB DEPENDENTS ATTENDING IS, REDEEMING THOSE NOTES UNNEEDED AT ANNUAL CASH FACE VALUE OF P2,00 PER YEAR. BANK ANTICIPATES THAT 300 CAPITAL NOTES SUFFICIENT TO MEET ALL ENROLLMENT REQUIREMENTS THROUGH 1977.

10. ALTHOUGH CAPITAL NOTE OPTION AND 12 YEAR PREPAYMENT OPTION IDENTICAL IN TOTAL NET COST AS WELL AS AVERAGE ANNUAL OUTLAY, BANK PROPOSES TO EXERCISE CAPITAL NOTE OPTION IN VIEW OF FACT THAT SUCH OPTION ALLOWS IT TO BASICALLY RECUP NET TOTAL OUTLAY FROM PROFESSIONAL STAFF FOR WHOSE BENEFIT NOTES PURCHASED. UNDER CURRENT ARRANGEMENTS, ADB REIMBURSES PROFESSIONAL STAFF 75 PERCENT OF EDUCATIONAL EXPENSES. HENCE, BANK WOULD PAY 75 PERCENT OF P2,000 DEVELOPMENT FEE AS WELL AS 75 PERCENT OF ANNUAL CASH VALUE (P2,000) OF CAPITAL NOTES. THUS BANK WILL RECOUP FROM EACH NOTE LIMITED OFFICIAL USE

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PAGE 02 MANILA 09748 02 OF 02 170610Z

USED FOR ENROLLMENT PURPOSES P500 FROM DEVELOPMENT FEE AND P500 FROM ANNUAL REDEMPTION VALUE OF CAPITAL NOTE, RESULTING IN P1,000 RETURN PER YEAR FROM AFFECTED STAFF. ACCORDINGLY NET CUMULATIVE OUTLAY FOR BANK UNDER CAPITAL NOTE PURCHASE -- P12,600 -- (SEE PARA 4 A9;3)BASICALLY OFFSET OFFSET OVER 12 YEAR PERIOD BY P1,000 PER NOTE PER YEAR PAYMENT DUE FROM PROFESSIONAL STAFF.

1. IN PROPOSING TO EXERCISE CAPITAL NOTE OPTION, BANK DOC. NOTES THAT ADB NOT EXPECTED TO MAKE ADDITIONAL ANNUAL GRANTS (CURRENTLY \$15,000 PER YEAR FROM BANK) TO US DURING 12 YEAR PERIOD IN QUESTION.

12. DESPITE INCREASE IN TOTAL TUITION COSTS FOR NEXT 12 YEARS AS RESULT OF IS EXPANSION TO BE FINANCED, TOTAL TUITION COSTS AT IS STILL LOWER THAN EQUIVALENT SCHOOLS IN REGION. HIGH SCHOOL TUITION AT IS CURRENTLY 757 US DOLLARS EQUIVALENT, PLUS \$375 EQUIVALENT UNDER PAY-AS-YOU-GO OPTION (WHICH IS MAXIMUM ANNUAL INCREASE FOR ANY OF THREE OPTIONS), PLUS TEXTBOOK RENTALS UP TO \$30, FOR

TOTAL OF \$1,162 PER YEAR. OTHER SCHOOLS IN REGION
RANGE FROM \$1320 ANNUALLY PLUS CAPITAL LEVY CERTIFICATE
PURCHASE (US\$3,000) AT JOINT EMBASSY SCHOOL JAKARTA
THROUGH \$1,630 PLUS \$520 PER YEAR CAPITAL FEE AT
HONG KONG IS TO \$2,400 ANNUAL TUITION AT AMERICAN
SCHOOL TOKYO.

13. USADB SUPPORT BANK PROPOSAL AND RECOMMENDS
FAVORABLE NAC ACTION. PURNELL

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